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Following is a statement by Nicholas A. Veliotes, Assistant Secretary for Near East and South Asian Affairs, before the Subcommittee on Europe and the Middle East of the House Foreign Affairs Committee and the Joint Economic Committee, May 10, 1982.

I welcome the opportunity to appear before the Joint Economic Committee and the European and Middle East subcommittee to discuss U.S. policy toward the Persian Gulf. I appreciate the courtesy of both committees in deferring this session until after my recent visit to the six Arabian Peninsula countries which have joined in the Gulf Council for Cooperation.

U.S. Interests

The states surrounding the gulf have increasingly become the object of international attention. U.S. interests in the region are longstanding and of great and growing importance.

- We support the independence and territorial integrity of all the gulf states. Because of our own national values, we have an interest in constructive relations with all the peoples there and in their independence, security, progress, and welfare.
- The region is of great importance to the global strategic balance. Events there impact on our ability, and that of our allies, to foster a world order in which all peoples can pursue their national destinies, free of external interference.
- We, like the rest of the international community, depend on access to the region's oil resources on reasonable commercial terms. The degree of this reliance has been reduced in recent months, and we will benefit from our increasing independence from foreign oil. The fact remains, however, that both we and our principal allies will also continue significantly to rely upon gulf resources for the foreseeable future. We want, therefore, to maintain a close dialogue with the gulf oil-producing states, who share with us an interest in an orderly and prosperous world economy.
- The region has become an important market for American products and technology and a major constructive force in international finance and economic development.

Basic Policy Thrust

U.S. interests in the region are longstanding, but the circumstances which have an impact on our interests have changed. To insure and advance our interests in the gulf:

- We have pursued constructive ties with the governments and peoples of the region;
- We have sought peace and security and orderly development there;
- We have pursued cooperation with gulf governments to contribute to peace and security and orderly development beyond the region;
- We have sought mutually beneficial economic and commercial ties, including cooperation on world energy and financial issues; and

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• We have endeavored to work closely with our allies in the industrial democracies in developing a cooperative approach toward the region.

Over the last decade senior officials have appeared before Chairman Hamilton's Subcommittee on Europe and the Middle East on several occasions to discuss comprehensively the evolution of the U.S. relationship with the gulf states. Today I would like to build on that process of exchange with the Congress, noting recent developments and outlining the approach of the Reagan Administration to furthering U.S. interests in the region.

In the Persian Gulf, as elsewhere in the Middle East, there have been two main thrusts of the Reagan Administration's policy approach—the pursuit of peace and the pursuit of security. In our quest for these interrelated and mutually reinforcing goals, we seek both to further our own national interests and to assist the peoples of the region to pursue their own legitimate aspirations free of outside pressure. We believe these goals are broadly shared by the states of the region, and we seek to work in appropriate ways with those governments in the gulf which would work with us in pursuing them.

We recognize fully that the friendly states of the gulf are fully engaged both in the geopolitical dynamics of the strategically important gulf region and in the political dynamics of the broader Arab and Islamic worlds. Hence they consider their present and future security and tranquility dependent upon an early resolution of conflict in the gulf and checking of outside pressure on it. But they also see it as deeply dependent upon progress toward resolution of the Palestine issue in all its aspects and sustained movement toward a comprehensive and lasting Middle East peace. The interaction of the two political environments in which these states live creates both internal and external pressures on them. The pursuit of our interests in the gulf requires a policy which addresses both of these major regional issues and purposefully seeks both peace in the Middle East and security in the gulf.

Recent Developments

In the last year or so there have been important developments both positive and negative in the strategic environment of this region. Six states on the Arabian Peninsula side of the gulf—Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman—have continued their development as modern societies. These states have taken important steps in the sustained search for greater cooperation by their establishment of the Gulf Council for Cooperation. The impressive development of the council in its first months suggests that a good basis has been established for greater political, economic, and security cooperation among these states. This is an objective which the peoples of the region cherish, and which we welcome and support, for such cooperation is central to building prospects for peace and orderly progress.

At the same time we have witnessed a general improvement in relations between the Gulf Council states and Iraq, at the head of the gulf. This development, which has occurred against the backdrop of the Soviet invasion of Afghanistan and the protracted war between Iran and Iraq, has been accompanied by some enhancement of Iraq's relations with Western Europe and some easing of Iraq's once tight bonds with the Soviet Union. In the past year our own contacts with the Government of Iraq have expanded and our dialogue on substantive issues has broadened. We believe that resuming normal diplomatic relations would serve the interests of both countries. There recently has been growth in commercial ties and greater participation by our private sector in Iraq's civil development.

Unfortunately, the largest state in the gulf, Iran, remains gripped in the turmoil of its revolution, at war with Iraq, and in uneasy relationship with other gulf neighbors. Given the harsh anti-American attitude of the present regime and the uncertainties of the current situation, we see little prospect for the improvement of our relations in the foreseeable future. At the same time, the Iranians know that the United States remains committed to preserving the territorial integrity of all countries in the area, including Iran and Iraq, and firmly opposed to outside intervention in the internal affairs of Iran and its neighbors. We are proceeding to implement the financial arrangements in connection with the release of the hostages in an orderly manner and in scrupulous adherence to the Algiers declarations. For the future, we will be prepared to improve our relations as circumstances may allow.

The United States remains deeply concerned about the continuation of hostilities between Iraq and Iran; this war danger serves no U.S. national interest, nor that of our allies and friends, and we believe the conflict does not serve the interests of the two belligerent nations. We deplore the loss of life involved and the damage that this conflict has wrought to the development aspirations and welfare of the Iraqi and Iranian peoples.

We have a real concern that this conflict could spill over to threaten neighboring friendly states. The continued deployment of U.S. AWACS [airborne warning and control system] to Saudi Arabia is a manifestation of this concern and of our desire to support friendly states in providing for their own security in this dangerous situation. We have not and will not take sides in this conflict, and we continue to refuse to allow military equipment under U.S. controls to be provided to either party. We support all constructive efforts to bring about an end to the hostilities and withdrawal of forces behind international borders under conditions that will preserve the sovereignty and territorial integrity of both Iran and Iraq.

A Balanced Approach

Let me emphasize that this Administration fully appreciates that U.S. policy toward the gulf must be not only comprehensive but balanced. As we seek to build on our relations with each of the friendly gulf governments, we are confident that our concern for peace and stability in the gulf and in the wider region strikes a chord of deep mutual interest with them and their peoples. We recognize that each of the states has its own particular set of interests and its own distinctive role to play in the region and beyond. We recognize that the degree and nature of our cooperation with each state must reflect this. We also recognize the major interest of our industrial allies in the region and the importance of close consultations and cooperation with them as we pursue our policy objectives there.

The Economic Factor

The United States experience in the gulf began with a strong economic focus. Economic considerations remain an important aspect of our policy approach. Over 50% of the world's proven oil resources are in the gulf region. Currently the states which are members of the Gulf Council also provide half the crude entering world trade. We seek to build a sense of cooperation between these key oil-producing states and the consumer nations. We have passed through a long and difficult period in which producing nations have asserted full control over oil resources and production and in which the world economy has suffered dangerous strains and disruptions through interruptions of oil supplies and sharp price increases.

We need to maintain stable prices and supply, assure security of oil resources, and increase cooperation as producer states assume a greater role in the refining, processing, and marketing phases of the energy and petrochemical industries. At the same time, it is critical to the U.S. national interest, to the economic security of the consuming nations generally, and indeed to the prospects for tranquility in the producing states, that we and other major consumer nations maintain our efforts to reduce dependence on Persian Gulf oil.

It is our policy through such activities as the Joint Economic Commission with Saudi Arabia, a variety of reimbursable advisory activities in other states, and the work of the newly established Joint Economic Commission with Oman to continue to make an official U.S. contribution to economic development in the area.

This Administration lays great stress on assisting the pursuit of American commerce in the region. Last year we exported almost $11 billion in goods to the region, notwithstanding the virtual cessation of our once major trade with Iran. This represented almost 5% of U.S. exports worldwide. In addition, our balance of payments benefits significantly from the services U.S. firms provide in participating in the region's development.

We welcome the increasing importance of the gulf states in international finance. We seek to work closely with them both in maintaining the international financial order and in assisting poorer states, particularly those in the general region which are of strategic importance to both the United States and the gulf. This Administration also welcomes constructive investment by gulf countries in our own financial markets and economy.

The Political Factor

Over the last decade we have expanded our longstanding diplomatic relations with Saudi Arabia and Kuwait to include the other four states on the peninsula side of the gulf, as they fully entered the international arena. We have built strong working relationships through close consultations on a range of political issues of mutual interest. These include concern about Soviet pressures against the region.

They also, of course, include the issue which all governments in the region consider central to long-term security and stability, a comprehensive, just, and lasting settlement of the Arab-Israeli conflict. These governments recognize that the United States is dedicated to pursuit of a peace between Israel and all its neighbors and they share this goal. There is, of course, general disagreement with the U.S. approach through the Camp David process, but we remain in close contact to make certain that these governments are accurately informed of our views and our approach.

In the last year we have seen a particularly impressive example of how we can work with gulf governments in the resolution of conflict in the important contribution that Saudi Arabia and Kuwait have made in Lebanon, complementing our own efforts to sustain a cease-fire and defuse tensions.

The Security Factor

In the last several years a number of situations have caused a serious deterioration in the strategic environment in the region—the Iranian revolution, the Soviet-supported coup in Afghanistan and then the Soviet invasion, increased Soviet presence in South Yemen and Ethiopia, the formation of a Libya/South Yemeni/Ethiopia alliance, and the generally more aggressive Soviet international posture with its strategic implications for the gulf. In response to this situation, in recognition of the critical nature of Western interests in the gulf, and in response to concerns of friendly governments there, U.S. policy toward the region has placed a new emphasis on the military or security aspect, bringing it more into balance with the economic and political elements of our policy.

Our security interests and role in the region are, of course, longstanding. For a third of a century U.S. and Western strategy has sought to deter the Soviet threat to the gulf, with our approach varying as conditions have changed. Our security assistance relationship with Saudi Arabia goes back to the immediate post-World War II era, as does our naval presence in the gulf—and as did our security assistance relationship with Iran before the revolution. As our relations have developed with other states in the region, we have moved toward military supply and training relationships appropriate to each state's defense requirements and its security assistance relationships with other Western countries. We intend to remain in close contact with each of the governments on the peninsula side of the gulf about their defense concerns and to act where we appropriately can to assist them in meeting their legitimate defense requirements.

At the same time this Administration recognizes that there is a military aspect at the root of the Soviet pressure against the region, a potential threat with which the thinly populated gulf states could not deal by themselves. The importance of the U.S. role in maintaining a global strategic balance to check Soviet pressures has long been recognized by the leaders in this region. Recent events have made the gulf itself a focal point in the international strategic balance. While there are other sorts of threats to peace and stability with which friendly states in the region must cope, the pressure the Soviets can bring against the region and our ability to check that pressure impact significantly on the security environment in which regional states cope with problems in the area itself.

In recognition of this reality, this Administration has determined to improve our own capability to project military force toward the region as a deterrent to outside pressure against those friendly states. Through improvement of our deployment capabilities and command structure, through access to facilities in friendly countries which support our increased naval deployments in the Indian Ocean, and through closer security assistance cooperation with certain key states, we are moving to make this region more secure. Our continued deployment of AWACS to buttress Saudi air defense—as Saudi Arabia and its smaller neighbors in the gulf develop a greater sense of security cooperation—is a striking example of how we can make a contribution to the region's security in a way consistent with the political realities there.

In addition we are making major resource contributions, often in cooperation with gulf governments, to build the security and economic health of neighboring countries of strategic importance to the gulf. In this connection our major new undertaking to assist Pakistan—a front-line state facing Soviet forces in neighboring Afghanistan and as such a buffer against Soviet pressures on the gulf—is essential to our broader strategy in the region.

We well understand the sensitivities in the region to treaties or formal alliance with outside powers. We seek no bases. We seek no unilateral benefit. We seek instead a capability to deter outside threat and respond appropriately should friendly states want our help. Our response would reflect a policy in our national interests and would be carried out after appropriate consultations with nations concerned and in strict adherence to our own constitutional

processes. Our approach enhances not only the security of our interests and those of our allies in the region but more fundamentally the security of the region itself, so that its peoples may pursue their destinies free of outside pressure.

The effectiveness of our national response to major U.S. interests in the Persian Gulf will be heavily influenced by a variety of issues which are not limited to this region:

- By the progress of the Middle East peace process;
- By the nature of our relations with the Soviet Union;
- By the strength and cohesion of the Western alliance;
- By the strength of our economy and by our military preparedness; and
- By basic trends in the international energy situation.

Moreover, social and political forces in the region itself, elements on which we have little direct influence, will affect relationships with and relationships within the region, for better or for worse.

But we have fashioned a set of policies designed to be supportive of those states in the gulf who would work with us and to contribute to the region's security, political harmony, and our mutual economic welfare. We look forward to strong and beneficial relations with any and all of the governments and peoples of this strategic region who value independence, orderly progress, and a better future. ■

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